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Financial Markets

Irving Trust

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Friday Sept. 5, 1980

Rates moved lower this week, as the market regained some of the composure it lost earlier in the face of rapid money growth and uncertainty over Federal Reserve policy. Gains were tempered, however, by Friday's largely unfavorable (for the market) economic news and a seasonal--but nonetheless unsettling--operation by the Fed to drain reserves temporarily from the banking system when funds were trading at 10 1/8%.

Though the recent heavy supply pressure on the long-term markets abated--as always--over the Labor Day weekend, there remain abundant signs of continued strong credit demands in this area. The Treasury's large deficit has necessitated financing projected at about $27 billion this quarter (compared to $9 billion in the same quarter last year) and about $25 billion in the fourth quarter (about the same as last year). The corporate calendar has dropped off, largely due to the unsettled condition of the market; but with about $3 billion of new issues slated for this month, any relief is only relative to the awesome pace of the last four months. Moreover, should market conditions improve, the calendar could quickly swell. Finally, the municipal 30-day visible supply rose to over $3 billion this week, marking a record for 1980. We expect much of the pressure of new issues in the corporate and municipal sectors to abate by the end of this year, thus assisting in a modest reduction of long-term rates. Near term, however, retail customers appear to have little incentive to rush to invest, and a sustained rally is unlikely.

As usual, much depends on the Fed. Contrary to widespread belief, the Fed probably did not tighten its policy stance after the early-August surge in the money stock. A tighter stance would imply a reduced provision of nonborrowed reserves relative to the existing target path, thus forcing banks to borrow from the Fed's discount window and lifting the Fed funds rate in the process. However, there is little in the recent data for borrowed reserves to suggest that such has occurred. Instead, credit for the sharp rise of rates must be laid to the market the Fed was essentially accommodating the increased required reserves, thus limiting any need for borrowing. From this viewpoint, it is not surprising that rates should have eased off this week. Our best guess at this stage is that the Fed's projections for money growth during September pointed to much slower growth than in August. If so, then it would have made little sense to overreact to what was essentially a one-week hop in the money numbers.

In sum, then, the Fed's policy stance appears unchanged, with little prospect of being relaxed or tightened at the September 16 FOMC meeting. This probably means that rates will fall modestly between now and year-end, with most of the drop postponed for a few weeks.

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Market Yields

	9/5/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors			
with highest credit rating	11.50%	11.50%	12.75%
Effective since	8/27/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	10.50
Federal Funds	10.25	11.00	11.38
Repurchase Agreements	9.50	10.75	11.00
U.S. Treasury Issues			
Bills			
3 months	9.68	10.36	10.90
6 months	9.90	10.74	11.10
1 year	9.86	10.50	10.95
Coupons			
2 years	10.78	11.65	10.19
4 years	11.02	11.80	9.47
7 years	11.16	11.90	9.45
10 years	11.17	11.90	9.38
Long Bond	11.00	11.50	9.19
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.30	11.05	11.75
3 months	10.75	11.60	11.95
6 months	11.25	12.00	12.15
1 year	11.50	12.20	11.75
Banker's Acceptances			
1 month	10.20	11.05	11.75
3 months	10.55	11.45	12.10
6 months	10.75	11.60	12.31
Eurodollar Deposits			
1 month	10.75	11.25	12.25
2 months	11.25	11.50	12.50
3 months	11.50	12.25	12.69
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.00	10.75	11.25
1 month	9.88	10.63	11.25
3 months	9.88	10.50	10.50
Bank Holding Companies			
1 month	9.63	10.25	11.20
Dealer Placed:			
3 months	10.13	10.50	11.38
New AA Corporate Utility Bond	12.88	13.13	9.85
Tax Exempt			
6 month Project Notes	5.80	6.60	5.70
1 year AAA Bond	5.60	5.75	N/A
5 year AAA Bond	6.00	6.30	N/A
20 year AAA Bond	8.20	8.20	6.15

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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